

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Northport	County Leelanau County
Fiscal Year End February 28, 2006	Opinion Date April 26, 2006	Date Audit Report Submitted to State August 31, 2006	

We affirm that:

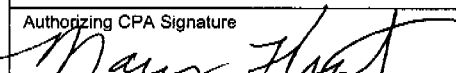
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Dennis, Gartland & Niergarth		Telephone Number (231) 946-1722	
Street Address 415 Munson Avenue		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 		Printed Name Mary F. Krantz	License Number 014936

**Village of Northport**

**FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

February 28, 2006

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# **Village of Northport**

## **VILLAGE OFFICIALS**

February 28, 2006

Michael F. Rogers, Sr.	President
Merilee Scripps	Treasurer
Laura A. Weiss	Clerk
William J. Brendal	Trustee
Richard Burmeister	Trustee
Frederick H. Thomas	Trustee
Steven Mattson	Trustee
Barb VonVoigtlander	Trustee
Stephen Wetherbee	Trustee

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable President and  
Members of the Village Council  
Village of Northport  
Leelanau County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the *Village of Northport* (the "Village") as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Village has not presented a management discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2006, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Honorable President and  
Members of the Village Council  
Village of Northport  
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The budgetary comparison information on page 23 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Dennis, Gartland & Niergarth*

April 26, 2006

# Village of Northport

## STATEMENT OF NET ASSETS

February 28, 2006

	Primary Government		
	Governmental Activities	Business- Type	Total
<b>ASSETS</b>			
Current assets			
Cash and equivalents	\$ 100,303	\$ 81,209	\$ 181,512
Investments	242,844	140,860	383,704
Accounts and advances receivable	24,225	26,123	50,348
Due from other governmental units	15,058	-	15,058
Due from other funds	-	334,400	334,400
Prepaid expenditures and deferred charges	<u>12,000</u>	<u>7,279</u>	<u>19,279</u>
Total current assets	394,430	589,871	984,301
Capital assets, net of accumulated depreciation	510,911	2,017,611	2,528,522
Other assets			
Long-term receivable	<u>671,848</u>	<u>-</u>	<u>671,848</u>
Total assets	<u>\$ 1,577,189</u>	<u>\$ 2,607,482</u>	<u>\$ 4,184,671</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 130,946	\$ 4,494	\$ 135,440
Accrued liabilities	5,695	2,396	8,091
Due from other funds	334,400	-	334,400
Deposits and advances	<u>-</u>	<u>3,853</u>	<u>3,853</u>
Total liabilities	<u>471,041</u>	<u>10,743</u>	<u>481,784</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	510,911	2,017,611	2,528,522
Unrestricted	<u>595,237</u>	<u>579,128</u>	<u>1,174,365</u>
Total net assets	<u>1,106,148</u>	<u>2,596,739</u>	<u>3,702,887</u>
Total liabilities and net assets	<u>\$ 1,577,189</u>	<u>\$ 2,607,482</u>	<u>\$ 4,184,671</u>

The accompanying notes are an integral part of these financial statements.

# Village of Northport

## STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

Functions/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contribution	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 241,105	\$ -	\$ 118,010	\$ -	\$ (123,095)	\$ -	\$ (123,095)
Community activities	9,937	-	9,854	-	(83)	-	(83)
Highways and streets	59,768	-	-	-	(59,768)	-	(59,768)
Street lighting	11,276	-	-	-	(11,276)	-	(11,276)
Parks and recreation	16,023	-	-	-	(16,023)	-	(16,023)
Other	7,409	-	-	-	(7,409)	-	(7,409)
Capital outlay	4,173	-	-	-	(4,173)	-	(4,173)
<b>Total governmental activities</b>	<b>349,691</b>	<b>-</b>	<b>127,864</b>	<b>-</b>	<b>(221,827)</b>	<b>-</b>	<b>(221,827)</b>
<b>Business-type activities</b>							
Water	87,598	63,477	-	-	-	(24,121)	(24,121)
Marina	480,686	534,111	-	-	-	53,425	53,425
<b>Total business-type activities</b>	<b>568,284</b>	<b>597,588</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,304</b>	<b>29,304</b>
<b>Total primary government</b>	<b>\$ 917,975</b>	<b>\$ 597,588</b>	<b>\$ 127,864</b>	<b>\$ -</b>	<b>(221,827)</b>	<b>29,304</b>	<b>(192,523)</b>
<b>General purpose revenues</b>							
Property taxes, levied for general purposes					325,774	-	325,774
Investment earnings					10,007	8,189	18,196
Miscellaneous					49,481	-	49,481
Transfers					(45,000)	45,000	-
<b>Total general revenues</b>					<b>340,262</b>	<b>53,189</b>	<b>393,451</b>
<b>Special item - gain on disposal of assets</b>					<b>6,441</b>	<b>-</b>	<b>6,441</b>
<b>Change in net assets</b>					<b>124,876</b>	<b>82,493</b>	<b>207,369</b>
Net assets, beginning of year, as previously reported					1,133,384	2,514,246	3,647,630
Prior period adjustment					(152,112)	-	(152,112)
Net assets, beginning of year, as restated					981,272	2,514,246	3,495,518
<b>Net assets, end of year</b>					<b>\$ 1,106,148</b>	<b>\$ 2,596,739</b>	<b>\$ 3,702,887</b>

-5- The accompanying notes are an integral part of these financial statements.

# Village of Northport

## GOVERNMENTAL FUNDS - BALANCE SHEET

February 28, 2006

	General Fund	Other Governmental Funds*	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 47,375	\$ 52,928	\$ 100,303
Cash invested	176,348	66,496	242,844
Receivables			
Taxes	4,225	-	4,225
Accounts receivable	20,000	-	20,000
Due from other governmental units	7,781	7,277	15,058
Long-term receivable	671,848	-	671,848
Prepaid expenses	12,000	-	12,000
	<u>939,577</u>	<u>126,701</u>	<u>1,066,278</u>
Total assets	<u>\$ 939,577</u>	<u>\$ 126,701</u>	<u>\$ 1,066,278</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 130,946	\$ -	\$ 130,946
Accrued liabilities	4,021	1,674	5,695
Due to other funds	334,400	-	334,400
	<u>469,367</u>	<u>1,674</u>	<u>471,041</u>
Total liabilities	<u>469,367</u>	<u>1,674</u>	<u>471,041</u>
<b>FUND BALANCES</b>			
Unreserved	<u>470,210</u>	<u>125,027</u>	595,237
	<u>939,577</u>	<u>126,701</u>	
Total liabilities and fund balances	<u>\$ 939,577</u>	<u>\$ 126,701</u>	

### Reconciliation of Governmental Fund Balances to District-Wide Governmental Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$1,238,931 and the accumulated depreciation is \$728,020.

Total net assets - governmental activities

510,911  
\$ 1,106,148

\* Fireworks Fund, Local Street Fund and Major Street Fund

# Village of Northport

## GOVERNMENTAL FUNDS - STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended February 28, 2006

	General Fund	Other Governmental Funds*	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 325,774	\$ -	\$ 325,774
Intergovernmental revenues	47,317	70,693	118,010
Contributions	-	9,854	9,854
Equipment rental	33,923	-	33,923
Interest income	8,269	1,738	10,007
Other	92,203	16,889	109,092
	<u>507,486</u>	<u>99,174</u>	<u>606,660</u>
Total revenues			
	<u>507,486</u>	<u>99,174</u>	<u>606,660</u>
<b>EXPENDITURES</b>			
General government			
Council	5,447	-	5,447
President	1,268	-	1,268
Administrative coordinator	17,767	-	17,767
Accounting fees	4,290	-	4,290
Attorney fees	29,772	-	29,772
Clerk	33,222	-	33,222
Treasurer	6,209	-	6,209
Office	25,268	-	25,268
Village property	74,295	-	74,295
Zoning administration	10,000	-	10,000
Fringe benefits	3,268	-	3,268
Community activities	1,924	8,013	9,937
Highways and streets	2,000	82,352	84,352
Street lighting	11,276	-	11,276
Parks and recreation	16,023	-	16,023
Other	7,409	-	7,409
Capital outlay	123,883	49,091	172,974
	<u>373,321</u>	<u>139,456</u>	<u>512,777</u>
Total expenditures			
	<u>373,321</u>	<u>139,456</u>	<u>512,777</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>134,165</u>	<u>(40,282)</u>	<u>93,883</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	26,000	11,830	37,830
Operating transfer out	(82,830)	-	(82,830)
	<u>(56,830)</u>	<u>11,830</u>	<u>(45,000)</u>
Total other financing sources (uses)			
	<u>(56,830)</u>	<u>11,830</u>	<u>(45,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	77,335	(28,452)	48,883
Fund balance, beginning of year	392,875	153,479	546,354
	<u>392,875</u>	<u>153,479</u>	<u>546,354</u>
Fund balance, end of year	<u>\$ 470,210</u>	<u>\$ 125,027</u>	<u>\$ 595,237</u>

\* Fireworks Fund, Local Street Fund and Major Street Fund

The accompanying notes are an integral part of these financial statements.

## Village of Northport

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

**Total net change in fund balances - governmental funds** \$ 48,883

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds expenditures. However, those costs are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Capital outlays	\$ 168,801	
Depreciation expense	<u>(30,299)</u>	138,502

Proceeds from the sale of assets are revenues in the governmental funds, but it reduces capital assets, net of accumulated depreciation in the statement of net assets and does not affect the statement of activities. (68,950)

Gain on sale of assets 6,441

**Change in net assets of governmental activities** \$ 124,876

# Village of Northport

## PROPRIETARY FUNDS - COMBINING STATEMENT OF NET ASSETS

February 28, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund*</u>	<u>Marina Fund*</u>	<u>Totals</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 64,887	\$ 16,322	\$ 81,209
Cash invested	14,349	126,511	140,860
Accounts receivable	16,253	9,870	26,123
Due from other funds	-	334,400	334,400
Prepaid expenses	<u>3,000</u>	<u>4,279</u>	<u>7,279</u>
Total current assets	<u>98,489</u>	<u>491,382</u>	<u>589,871</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Land	-	220,991	220,991
Buildings	-	89,275	89,275
Other improvements	1,023,454	2,274,939	3,298,393
Mains, equipment and fixtures	<u>20,388</u>	<u>43,330</u>	<u>63,718</u>
Total property, plant and equipment	1,043,842	2,628,535	3,672,377
Less accumulated depreciation	<u>(285,069)</u>	<u>(1,369,697)</u>	<u>(1,654,766)</u>
Net property, plant and equipment	<u>758,773</u>	<u>1,258,838</u>	<u>2,017,611</u>
	<u>\$ 857,262</u>	<u>\$ 1,750,220</u>	<u>\$ 2,607,482</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 3,720	\$ 774	\$ 4,494
Accrued wages and related liabilities	783	1,613	2,396
Deferred revenues	<u>-</u>	<u>3,853</u>	<u>3,853</u>
Total current liabilities	<u>4,503</u>	<u>6,240</u>	<u>10,743</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	758,773	1,258,838	2,017,611
Unrestricted	<u>93,986</u>	<u>485,142</u>	<u>579,128</u>
Total net assets	<u>852,759</u>	<u>1,743,980</u>	<u>2,596,739</u>
	<u>\$ 857,262</u>	<u>\$ 1,750,220</u>	<u>\$ 2,607,482</u>

\* Major Funds

The accompanying notes are an integral part of these financial statements.

# Village of Northport

## PROPRIETARY FUNDS - COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended February 28, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Total</u>
Operating revenue			
Charges for services	\$ 63,217	\$ 308,798	\$ 372,015
Gas and oil sales	-	221,385	221,385
Other	260	3,928	4,188
Total operating revenues	<u>63,477</u>	<u>534,111</u>	<u>597,588</u>
Operating expenses			
Payroll and related benefits	33,362	120,235	153,597
Supplies	15,030	9,396	24,426
Contractual services	4,020	24,996	29,016
Utilities	5,664	13,360	19,024
Repairs and maintenance	1,348	9,866	11,214
Equipment rental	1,668	3,129	4,797
Gas and oil purchases	-	203,377	203,377
Insurance	3,600	7,198	10,798
Depreciation	22,293	70,754	93,047
Miscellaneous	613	18,375	18,988
Total operating expenses	<u>87,598</u>	<u>480,686</u>	<u>568,284</u>
Operating income (loss)	(24,121)	53,425	29,304
Nonoperating revenues			
Interest income	<u>368</u>	<u>7,821</u>	<u>8,189</u>
<b>NET INCOME (LOSS)</b>	(23,753)	61,246	37,493
Transfers from (to) other funds	<u>71,000</u>	<u>(26,000)</u>	<u>45,000</u>
<b>CHANGE IN NET ASSETS</b>	47,247	35,246	82,493
Net assets, beginning of year	<u>805,512</u>	<u>1,708,734</u>	<u>2,514,246</u>
Net assets, end of year	<u>\$ 852,759</u>	<u>\$ 1,743,980</u>	<u>\$ 2,596,739</u>

The accompanying notes are an integral part of these financial statements.

# Village of Northport

## PROPRIETARY FUNDS - COMBINING STATEMENT OF CASH FLOWS

Year Ended February 28, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Totals</u>
Operating activities			
Operating loss	\$ (24,121)	\$ 53,425	\$ 29,304
Adjustments to reconcile operating loss to cash (used) provided by operating activities			
Depreciation	22,293	70,754	93,047
Increase in accounts receivable	(3,548)	(9,870)	(13,418)
Increase in prepaid expenses	(3,000)	(3,423)	(6,423)
Increase (decrease) in accounts payable	2,881	(965)	1,916
Increase in accrued liabilities	165	943	1,108
Increase in deferred revenue	-	3,568	3,568
Net cash (used) provided by operating activities	<u>(5,330)</u>	<u>114,432</u>	<u>109,102</u>
Investing activities			
(Increase) decrease in cash invested	(367)	227,657	227,290
Interest received on investments	368	7,821	8,189
Increase in due from other funds	-	(334,400)	(334,400)
Purchase of fixed assets	<u>(7,500)</u>	<u>-</u>	<u>(7,500)</u>
Net cash used by investing activities	<u>(7,499)</u>	<u>(98,922)</u>	<u>(106,421)</u>
Non-capital financing activities			
Transfers from (to) other funds	<u>71,000</u>	<u>(26,000)</u>	<u>45,000</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>58,171</b>	<b>(10,490)</b>	<b>47,681</b>
Cash, beginning of year	<u>6,716</u>	<u>26,812</u>	<u>33,528</u>
Cash, end of year	<u><u>\$ 64,887</u></u>	<u><u>\$ 16,322</u></u>	<u><u>\$ 81,209</u></u>

The accompanying notes are an integral part of these financial statements.

# **Village of Northport**

## **STATEMENT OF FIDUCIARY NET ASSETS**

February 28, 2006

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	<u>\$ 1,621</u>
<b>LIABILITIES</b>	
Accrued liabilities	<u>\$ 1,621</u>

# **Village of Northport**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Introduction***

The accounting and reporting framework and the significant accounting principles and practices of the Village of Northport (the "Village") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Village's financial activities for the year ended February 28, 2006.

#### ***The Financial Reporting Entity***

The Village's financial statements include the accounts of all Village operations. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the Village is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Village. Additionally, the Village is required to consider other organizations for which the nature and significance of their relationship with the Village are such that exclusion would cause the Village's financial statements to be misleading or incomplete. The Village has not identified any blended or discretely presented component units requiring inclusion in the Village's financial statements.

#### ***Government-Wide and Fund Financial Statements***

##### ***Government-Wide Financial Statements***

The statement of net assets and statement of activities display information about the Village as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and marina functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities reports the expenses of a given fund offset by program revenues directly connected with that fund. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Village's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

## NOTES TO FINANCIAL STATEMENTS - Continued

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### *Fund Financial Statements*

The balance sheets and statements of revenues, expenditures/expenses and changes in fund balance/net assets (i.e. fund financial statements) for the Village's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund type assets, liabilities, revenues or expenditures.

### *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The fund financial statements of the Village are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The Village applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Village does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances which are recorded on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

## NOTES TO FINANCIAL STATEMENTS - Continued

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred.

The fiduciary funds are generally maintained on a cash basis which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

### ***Fund Types and Major Funds***

#### *Activities in Major Funds*

#### GOVERNMENTAL FUNDS

**General Fund** - This fund is used to account for all financial resources except those provided for in other funds. The fund includes the general operating expenditures of the Village.

#### PROPRIETARY FUNDS

**Marina Fund** - This fund is used to account for operations of the marina. Financing is provided by user charges.

**Water Fund** - This fund is used to account for operations of the water system. Financing is provided by user charges.

#### *Activities in Non-Major Funds*

#### GOVERNMENTAL FUNDS

**Special Revenue Funds** - These funds are used to account for specific revenue (other than special assessments, expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

#### FIDUCIARY FUNDS

**Trust and Agency Funds** - These funds account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds are Agency Funds.

### ***Budgets and Budgetary Accounting***

Budgets are adopted by Village officials for the primary government's General and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the functional level and control is exercised at the functional level.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Cash and Investments***

The Village considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

### ***Capital Assets***

Capital assets, which include property, plant and equipment, are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Village generally capitalizes assets with costs of \$1,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives, in years, for depreciable assets are as follows:

Land improvements	20 years
Buildings and improvements	20 - 50 years
Equipment	5 - 10 years
Vehicles	5 - 10 years

### ***Fund Equity***

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund equity represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Unrestricted net assets of Proprietary Funds represent the net assets that have not been legally identified for specific purposes.

### ***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# NOTES TO FINANCIAL STATEMENTS - Continued

## NOTE B - BUDGETARY POLICY AND PRACTICE

### *Excess of Expenditures over Appropriations in Budgeted Funds*

Michigan Public Act 621 of 1978 also provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the nine months ended February 28, 2006, the Village incurred certain expenditures which were in excess of the amounts appropriated as reflected in the budgetary comparison schedule as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Street lighting	\$ 11,000	\$ 11,276	\$ (276)

## NOTE C - CASH AND INVESTMENTS

At February 28, 2006, the Village's cash and investments include the following:

	<u>Balance Sheet Classification</u>		
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Total</u>
Bank deposits and cash on hand	\$ 183,133	\$ -	\$ 183,133
CD and money market investments	-	383,704	383,704
Total	<u>\$ 183,133</u>	<u>\$ 383,704</u>	<u>\$ 566,837</u>

### *Custodial Credit Risk - Deposits*

In the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2006, \$300,000 of the Village's cash and investments was insured. The remaining bank balance of \$267,068 was exposed to custodial credit risk because it was uninsured and uncollateralized.

### *Investments*

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Certificates of Deposit	\$ 383,704	\$ 284,301	\$ 99,403	\$ -	\$ -

# NOTES TO FINANCIAL STATEMENTS - Continued

## Interest Rate Risk

In accordance with the Village's investment policy, the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds or similar investment pools, and limiting the average maturity in accordance with the Village's cash requirements.

## NOTE D - PROPERTY TAXES

The Village collects real property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The county pays the Village for uncollected taxes as of September 15 out of proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect. The total levy is 8.5 mills for real and personal property. The Village levied a total real and personal property tax of \$325,774.

## NOTE E - INVESTMENT IN CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended February 28, 2006:

### Governmental Activities - General Fixed Assets

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Land and land improvements	\$ 342,528	\$ 70,701	\$ -	\$ 413,229
Building and improvements	498,304	-	-	498,304
Equipment and furniture	65,760	-	-	65,760
Vehicles	<u>232,993</u>	<u>98,100</u>	<u>69,455</u>	<u>261,638</u>
Total depreciable assets	1,139,585	168,801	69,455	1,238,931
Less accumulated depreciation	<u>(704,667)</u>	<u>(30,299)</u>	<u>6,946</u>	<u>(728,020)</u>
Total capital assets, net	<u>\$ 434,918</u>	<u>\$ 138,502</u>	<u>\$ 62,509</u>	<u>\$ 510,911</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**Business-Type Activities - Enterprise Funds**

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Land and improvements	\$ 220,991	\$ -	\$ -	\$ 220,991
Buildings	89,275	-	-	89,275
Other improvements	3,298,393	-	-	3,298,393
Mains, equipment and fixtures	<u>56,218</u>	<u>7,500</u>	<u>-</u>	<u>63,718</u>
Total depreciable assets	3,664,877	7,500	-	3,672,377
Less accumulated depreciation	<u>(1,561,719)</u>	<u>(93,047)</u>	<u>-</u>	<u>(1,654,766)</u>
Total capital assets, net	<u>\$ 2,103,158</u>	<u>\$ (85,547)</u>	<u>\$ -</u>	<u>\$ 2,017,611</u>

**NOTE F - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

***Operating Transfers***

A summary of operating transfers in and out of individual funds follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 26,000	\$ 82,830
Major Streets Funds	11,830	-
Water Fund	71,000	-
Marina Fund	<u>-</u>	<u>26,000</u>
Total government	<u>\$ 108,830</u>	<u>\$ 108,830</u>

***Receivables and Payables***

Interfund receivables and payables as reported in the governmental fund financial statements at February 28, 2006 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	\$ 334,400
Marina Fund	<u>334,400</u>	<u>-</u>
	<u>\$ 334,400</u>	<u>\$ 334,400</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE G - PENSION PLAN

The Village participates in a defined contribution (money purchase) pension plan. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the year ended February 28, 2006 was \$165,860; total payroll for the year ended February 28, 2006 was \$235,288. Employer contributions are based upon a percentage of annual payroll. Employees make additional contributions of 4% of gross wages. Employees are vested 100% immediately in employee contributions and are vested as follows in employer contributions:

<u>Years of Service</u>	<u>Vested</u>
0 - 2	0 %
3	20 %
4	40 %
5	60 %
6	80 %
7	100 %

The Village fully funded its required contribution for the year ended February 28, 2006. Employer contributions for the years ended February 28, 2006, February 28, 2005 and February 28, 2004 amounted to \$9,570, \$8,109 and \$6,699, or 6%, of covered payroll. There were employee contributions of \$6,634 during the year.

None of the plan's assets are invested in the Village securities or those of related parties. There are no loans from the plan to the Village.

### NOTE H - RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime and inland marine claims. Also, the Village carries worker's compensation insurance with the Michigan Municipal League. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### NOTE I - PRIOR PERIOD ADJUSTMENT

In 2005, an error resulting in an overstatement of previously reported net assets was discovered. Previously reported net assets and fund balance have been adjusted accordingly as of February 28, 2006:

	<u>Net Assets</u>	<u>Fund Balance</u>
Decrease in net assets for overstatement of capital assets, net of accumulated depreciation	<u>\$ 152,112</u>	<u>\$ 152,112</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### **NOTE J - LONG-TERM RECEIVABLES**

The long-term receivable is the result of the Village incurring costs associated with the development of the local sewer system. The Village will be reimbursed when funding of the sewer project becomes available through the issuance of bonds. As of February 28, 2006, the balance of the long-term receivable was \$671,848.

### **NOTE K - COMMITMENTS AND CONTINGENCIES**

The Village and a surrounding township are in the process of establishing a sewer authority to construct and operate a sewer system for the area. The Village's estimated cost of the project is \$9,276,000. The project will be paid with the proceeds from a State Revolving Fund loan. The loan will be repaid by special assessments billed to the benefiting property owners.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# Village of Northport

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended February 28, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
<b>REVENUES</b>					
Property taxes	\$ 332,000	\$ 332,000	\$ 325,774	\$ -	\$ (6,226)
Intergovernmental revenues	46,000	46,000	47,317	-	1,317
Equipment rental	17,450	32,450	33,923	15,000	1,473
Interest income	3,500	3,500	8,269	-	4,769
Other	110,560	640,581	92,203	530,021	(548,378)
Total revenues	509,510	1,054,531	507,486	545,021	(547,045)
<b>EXPENDITURES</b>					
General government	218,825	787,757	210,806	(568,932)	576,951
Community activities	4,000	4,000	1,924	-	2,076
Highways and streets	2,000	2,000	2,000	-	-
Street lighting	11,000	11,000	11,276	-	(276)
Parks and recreation	18,855	18,081	16,023	774	2,058
Other	59,200	49,200	7,409	10,000	41,791
Capital outlay	138,800	125,663	123,883	13,137	1,780
Total expenditures	452,680	997,701	373,321	(545,021)	624,380
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	56,830	56,830	134,165	-	77,335
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	26,000	26,000	26,000	-	-
Operating transfers out	(82,830)	(82,830)	(82,830)	-	-
Total other financing sources (uses)	(56,830)	(56,830)	(56,830)	-	-
<b>NET CHANGE IN FUND BALANCE</b>	-	-	77,335	-	77,335
Fund balance, beginning of year	392,875	392,875	392,875	-	-
Fund balance, end of year	\$ 392,875	\$ 392,875	\$ 470,210	\$ -	\$ 77,335

## **COMBINING FINANCIAL STATEMENTS**

# Village of Northport

## NON-MAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEETS

February 28, 2006

	<u>Special Revenue Funds</u>			<u>Total Other Non-Major Funds</u>
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Fireworks Fund</u>	
<b>ASSETS</b>				
Cash	\$ 16,909	\$ 30,485	\$ 5,534	\$ 52,928
Cash invested	42,232	24,264	-	66,496
Due from other governmental units	<u>4,545</u>	<u>2,732</u>	<u>-</u>	<u>7,277</u>
Total assets	<u>\$ 63,686</u>	<u>\$ 57,481</u>	<u>\$ 5,534</u>	<u>\$ 126,701</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accrued wages	\$ 794	\$ 880	\$ -	\$ 1,674
<b>FUND BALANCES</b>				
Unreserved	<u>62,892</u>	<u>56,601</u>	<u>5,534</u>	<u>125,027</u>
Total liabilities and fund balances	<u>\$ 63,686</u>	<u>\$ 57,481</u>	<u>\$ 5,534</u>	<u>\$ 126,701</u>

# Village of Northport

## NON-MAJOR GOVERNMENTAL FUNDS - COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended February 28, 2006

	Special Revenue Funds			Total Other Non-Major Funds
	Major Street Fund	Local Street Fund	Fireworks Fund	
<b>REVENUES</b>				
Intergovernmental revenues	\$ 48,833	\$ 21,860	\$ -	\$ 70,693
Contributions	-	-	9,854	9,854
Interest income	1,052	621	65	1,738
Other	<u>14,742</u>	<u>2,147</u>	<u>-</u>	<u>16,889</u>
Total revenues	<u>64,627</u>	<u>24,628</u>	<u>9,919</u>	<u>99,174</u>
<b>EXPENDITURES</b>				
Community activities	-	-	8,013	8,013
Highways and streets	42,021	40,331	-	82,352
Capital outlay	<u>17,235</u>	<u>31,856</u>	<u>-</u>	<u>49,091</u>
Total expenditures	<u>59,256</u>	<u>72,187</u>	<u>8,013</u>	<u>139,456</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	5,371	(47,559)	1,906	(40,282)
<b>OTHER FINANCING USES</b>				
Operating transfers in	<u>11,830</u>	<u>-</u>	<u>-</u>	<u>11,830</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>	17,201	(47,559)	1,906	(28,452)
Fund balance, beginning of year	<u>45,691</u>	<u>104,160</u>	<u>3,628</u>	<u>153,479</u>
Fund balance, end of year	<u>\$ 62,892</u>	<u>\$ 56,601</u>	<u>\$ 5,534</u>	<u>\$ 125,027</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable President and  
Members of the Village Council  
Village of Northport  
Leelanau County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the *Village of Northport* (the "Village") as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated April 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable President and  
Members of the Village Council  
Village of Northport  
Page 2

This report is intended solely for the information and use of management, the Village Council and others within the organization and is not intended to be and should not be used by anyone other than those specified parties.

*Dennis, Gartland & Niergarth*

April 26, 2006

## **AUDIT-RELATED COMMUNICATIONS**

To the Honorable President and  
Members of the Village Council  
Village of Northport

We have audited the financial statements of Village of Northport (the "Village") for the year ended February 28, 2006, and have issued our report thereon dated April 26, 2006. Professional standards require that we provide you with the following information related to our audit.

### ***Our Responsibility under U.S. Generally Accepted Auditing Standards***

As stated in our engagement letter dated April 6, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We remind you that an inherent weakness in your system of internal control exists because the limited size of your staff does not permit an adequate segregation of duties. Without an adequate segregation of duties, there is an increased risk that errors or fraud could occur and not be detected. We have identified some steps that have been taken to mitigate this condition such as the required Board approval of all disbursements. We can provide consulting services to help you identify your greatest remaining risk exposures and design procedures to reduce those risks to the extent reasonably possible.

### ***Significant Accounting Policies***

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by the Village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. However, during 2005, a loan was made to the General Fund from the Marina Fund. The General Fund should pay interest to the Marina Fund as long as the loan exists.

### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

During the audit, we evaluated management's estimates against available information as a basis for concluding about the reasonableness of these estimates. We do not consider such estimates to be particularly sensitive.

### ***Audit Adjustments***

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village, either individually or in the aggregate, indicate matters that could have a significant effect on the Village's financial reporting process.

### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Issues Discussed Prior to Retention of Independent Auditors***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Honorable President and Members of the Village Council and management of the Village of Northport and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth*

April 26, 2006